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Coffee

Annual Report

2005

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Report Highlights:

Marketing Year 2005/06 coffee production is forecast at 36.5 million 60-kg bags, down 5.9 million bags relative to MY 2004/05, mainly because arabica trees are in the "off-year" of the biennial production cycle. The expected good robusta production will partially offset the decrease in total production. Coffee exports for MY 2005/06 are projected at 26.1 million bags, while carry-over stocks are forecast at 4.8 million bags, sharply down from current season.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Sao Paulo [BR3]
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PS&D Table

Commodity	Coffee, Green (1000 HA)(MILLION T)					
	2004 USDA Official [Revised Estimate [DA Official [2005 DA Official [Estimate Estimate [DA Official [2006 DA Official [Forecast Estimate [
Market Year Begin	07/2003			07/2004		07/2005
Area Planted	2379	2379	2339	2453	0	2458
Area Harvested	2174	2174	2205	2305	0	2298
Bearing Trees	5050	5050	5131	5255	0	5220
Non-Bearing Trees	631	631	430	466	0	513
TOTAL Tree Population	5681	5681	5561	5721	0	5733
Beginning Stocks	17939	17939	11219	10619	15169	10439
Arabica Production	22600	22600	32900	33400	0	26000
Robusta Production	9400	9400	8800	9000	0	10500
Other Production	0	0	0	0	0	0
TOTAL Production	32000	32000	41700	42400	0	36500
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	49939	49939	52919	53019	15169	46939
Bean Exports	21840	21840	21000	24100	0	23000
Roast & Ground Exports	50	50	50	30	0	30
Soluble Exports	3030	3030	2500	3150	0	3100
TOTAL Exports	24920	24920	23550	27280	0	26130
Rst,Ground Dom. Consur	13000	13600	13400	14500	0	15200
Soluble Dom. Consum.	800	800	800	800	0	800
TOTAL Dom. Consumptic	13800	14400	14200	15300	0	16000
Ending Stocks	11219	10619	15169	10439	0	4809
TOTAL DISTRIBUTION	49939	49939	52919	53019	0	46939

Production

The Agricultural Trade Office (ATO)/Sao Paulo has adjusted upward the Brazilian coffee production estimate for Marketing Year (MY) 2004/05 (July-June) to 42.4 million bags (60 kilograms per bag), green equivalent, based on updated information from post contacts. Arabica and robusta production should account for 33.4 and 9 million bags, respectively.

Approximately 90 percent of the Brazilian 2004/05 crop has already been marketed. Traders report that the overall quality of the beans is considered considerably below average compared to the past twenty years. Prolonged rainfall through the harvest period in the states of Parana, Sao Paulo, Minas Gerais and Espirito Santo resulted in excessive humidity and affected the quality of the product. In southwestern Minas Gerais, a major arabica producing region, it is estimated that only 30 to 40 percent of the beans have good-to-better-than-good quality.

ATO/Sao Paulo projects Brazilian coffee production for MY 2005/06 (July-June) at 36.5 million 60-kg bags, green equivalent, a 5.9 million bag reduction relative to our adjusted figure for MY 2004/05. The expected fall is related to a decline in arabica coffee production, which should contribute 26 million, as opposed to 33.4 million bags for MY 2004/05. Robusta production is forecast at 10.5 million bags, an 18 percent increase compared to the previous crop, thus partially offsetting the expected drop in total production.

Field trips were conducted to major coffee producing areas to assess MY 2005/06 production. Trips were made during the February-April 2005 period including the states of Minas Gerais, Espirito Santo, Sao Paulo and Parana. Trip observations included crop management, vegetative development, cherry setting and fruit formation. Information for producing states other than those aforementioned were obtained from government sources, state secretariats of agriculture, grower associations, cooperatives and traders.

The table below shows forecasts by state and variety for MY 2005/06, as well, as production estimates for MY 2000/01 to MY 2004/05.

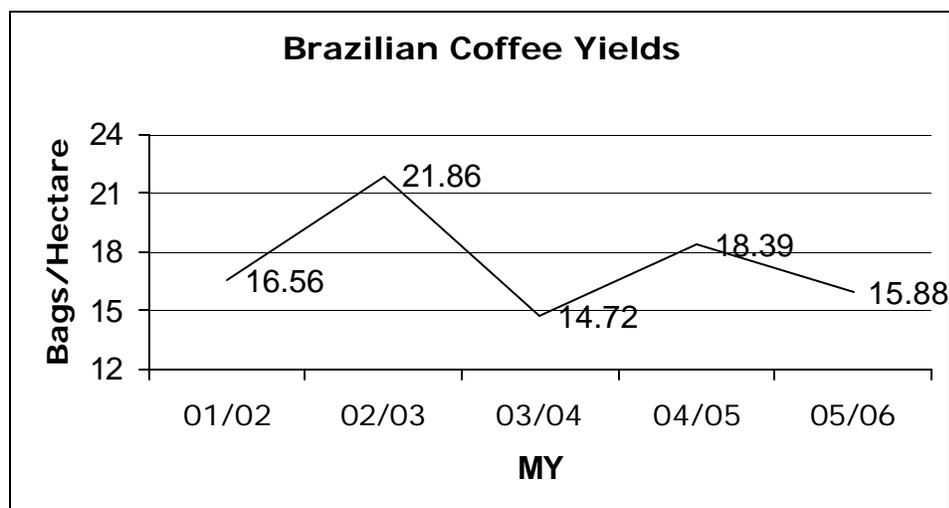
Brazilian Coffee Production (Million 60-kg bags)

State/Variety	MY 01/02	MY 02/03	MY 03/04	MY 04/05	MY 05/06
Minas Gerais	16.20	26.70	13.70	20.90	16.50
Southwest	8.50	15.00	7.00	11.20	7.50
Central-western	3.20	4.85	3.00	4.10	3.30
Southeast	4.50	6.85	3.70	5.60	5.70
Espirito Santo	9.70	11.50	7.70	8.00	8.60
Arabica	2.20	3.00	1.70	2.50	2.10
Robusta	7.50	8.50	6.00	5.50	6.50
Sao Paulo	3.20	5.90	3.00	4.90	3.30
Parana	0.50	2.60	2.20	2.60	1.80
Others	5.50	6.90	5.40	6.00	6.30
Arabica	2.30	3.40	2.00	2.50	2.30
Robusta	3.20	3.50	3.40	3.50	4.00
Total	35.10	53.60	32.00	42.40	36.50
Arabica	24.40	41.60	22.60	33.40	26.00
Robusta	10.70	12.00	9.40	9.00	10.50

Source: ATO/Sao Paulo.

Overall, the prevailing weather conditions were good in all coffee growing areas through the blossoming stage, except center-western Minas Gerais, which was negatively affected by irregular rainfall during flowering. Coffee trees show good vegetative development in both arabica and robusta regions visited by Post.

ATO/Sao Paulo projects the Brazilian coffee yield for MY 2005/06 at 15.88 bags/hectare, down 14 percent from MY 2004/05 (18.39 bags/ha.). The biennial production cycle of the arabica trees should indeed be the major factor contributing to the projected crop decrease. Trees are predominantly in the "off-year" of the production cycle, and, as a consequence, lower yields are expected. On the other hand, robusta production appears set for a good recovery from the past crop, and yields are forecast to rise vis-à-vis MY 2004/05, thus offsetting the likely decrease in total production.



The harvest period for robusta started in Rondonia and Espirito Santo in April, while the arabica harvest begins in May. The marketing of the new crop should start in May and June for robusta and arabica coffee, respectively, after the product has been dried.

In April 2005, the Brazilian Government (GOB), through the Ministry of Agriculture, Livestock and Supply's (MAPA) National Supply Company (CONAB), released its second survey projecting Brazilian coffee production for MY 2005/06 at 32.457 million 60-kg bags, a 6.21 million bag drop relative to the final estimation for MY 2004/05 (38.667 million bags). CONAB projects arabica production at 23.261 million bags, down 25 percent from the previous crop, whereas robusta crop is estimated at 9.196, a 22 percent increase compared to MY 2004/05.

CONAB reports that the results of the satellite crop monitoring system project (Geosafra) launched in May 2004 have already been incorporated into the field survey methods currently used by the institution. The results included studies conducted in Minas Gerais and Espirito Santo.

Coffee Area and Tree Population

ATO/Sao Paulo projects the MY 2005/06 Brazilian area planted to coffee at 2.458 million hectares (ha), similar to the revised figure for MY 2004/05. Area harvested for MY 2005/06 is projected at 2.298 million ha. The MY 2005/06 tree inventory is projected as follows: 513 million non-bearing trees and 5.22 billion bearing trees, comparable to the previous MY.

Note that current area planted to coffee is approximately 8 percent down from MY 2002/03 as a consequence of eradication and substitution of coffee trees to more profitable crops due to low prices received by producers since the 2000/01 crop.

Planted area and tree population are based on post surveys and data obtained from different sources such as CONAB, the Brazilian Institute of Geography and Statistics – IBGE, state secretariats of agriculture, coffee cooperatives, coffee growers associations, trading companies, etc.

According to the second survey conducted by CONAB in April 2005, the MY 2005/06 Brazilian area planted to coffee is 2.422 million ha, including 224,399 ha of non-productive area. The tree inventory is estimated at 5.174 billion bearing trees and 581.8 million non-bearing trees.

Coffee Association

The Center for Coffee Technological Development (CETCAF) is a private institution working to promote the technological development of the coffee industry in the state of Espírito Santo, the largest robusta-producing state in Brazil. The institution targets the improvement of the overall quality and productivity of the coffee trees as well as the enhancement of the social-economic conditions of coffee growers, mostly small farmers (75 percent of the growers). CETCAF promotes several courses to supply growers with up-to-date information about crop management and production techniques, market information and cooperative principles.

CETCAF also promotes the Coffee Certification Program. A pilot project has been conducted in the Unai region to adjust production practices in order to comply with the demands of the international entities like Fair Trade that provide certification. CETCAF aims to add value to the state coffee production, thus increasing the profitability of the beans produced in Espírito Santo.

Coffee Prices in the Spot Market

According to the International Coffee Organization (ICO), world coffee production for MY 2005/06 is projected at 106 million bags, down 7.38 million bags from MY 2004/05. World coffee consumption for 2004 is 113.4 million bags, up 1.4 million bags from 2003 (112 million bags). As a consequence, stock figures should decline approximately 5 million bags. The expected tight availability of coffee for MY 2005/06 related to increased consumption should support steady prices for the upcoming crop.

Indeed, coffee prices have been reacting positively since the end of 2004. The table below shows the Coffee Index price series released by the University of Sao Paulo's College of Agriculture "Luiz de Queiroz" (ESALQ). The series tracks coffee prices in the domestic spot market.

Coffee prices in dollar terms have also significantly increased during the past year. The continuous appreciation of the local currency, the Real, has also contributed to raising dollar-based prices since May 2004. Prices in May 2005 are US\$ 134.40 per 60-kg bag, up 93 percent compared to the same period in 2004 (US\$ 69,52).

Coffee Prices in the Domestic Market (Real, 60kg/bag).

	2001	2002	2003	2004	2005
January	127.51	110.01	190.74	193.24	284.40
February	127.05	110.84	193.03	203.52	305.07
March	125.17	116.41	174.97	206.22	337.03
April	117.03	117.76	175.00	202.10	336.40
May	130.24	107.54	172.99	217.53	332.03
June	125.23	106.37	159.58	239.77	--
July	116.99	104.70	162.77	200.61	--
August	113.90	109.21	173.51	198.98	--
September	111.97	136.04	173.90	219.27	--
October	104.39	167.72	167.35	215.95	--
November	111.09	187.65	167.69	240.38	--
December	105.02	184.13	174.53	269.70	--

Source: CEPEA/ESALQ/USP. May 2005 price refers to May 2-13.

Consumption

MY 2005/06 Brazilian domestic coffee consumption is forecast at 16 million 60-kg bags, green equivalent, up 5 percent from My 2004/05. Roast and ground coffee consumption should account for 15.2 million bags, while soluble coffee consumption is projected stable at 800,000 bags. The projection takes into account population growth rate and domestic campaigns to promote coffee consumption in Brazil. Total domestic coffee consumption forecasts for MY 2003/04 and 2004/05 were revised upward to 14.4 and 15.3 million bags, green equivalent, to reflect updated information from the Brazilian Coffee Industry Association (ABIC).

According to ABIC, Brazil represents approximately 13 percent of world coffee consumption. The coffee industry processed 14.9 million bags, green equivalent, from November 2003 to October 2004, up 1.2 million bags compared to November 2003 – October 2003. ABIC projects coffee consumption up 6 percent for 2005 (15.8 million bags), close to the target of the Coffee Quality Program (PQC) for 2006 (16 million bags). The steady growth in coffee consumption is explained by:

- Improved purchasing power of the Brazilian population coupled with the relatively stable economy and reduction of unemployment rates;
- Improved interest in the product. Brazilians are rediscovering their taste for coffee, encouraged by promotional campaigns and events;
- Improved quality of the product with a broader offer of gourmet, specialty and high quality coffees and a continuous release of new coffee brands in several Brazilian regions;
- The Coffee Quality Program (PQC). According to the PQC, coffee brands are eligible for the "Quality Stamp" only if they comply with three basic conditions: (1) products with minimal quality recognition; (2) sustainable standard flavor in the long term; and (3) good manufacturing practices.
- Press releases relating coffee consumption, up to certain volumes, to a healthy lifestyle.

The table below shows domestic ground and soluble coffee consumption as reported by ABIC.

Year	Consumption (Million 60 kg bags)		Consumption per capita (k		
	Roast/Groun Soluble	Total	Roast	Green Beans	
1996	10.60	0.40	11.00	3.33	4.16
1997	11.00	0.50	11.50	3.44	4.30
1998	11.60	0.60	12.20	3.61	4.51
1999	12.20	0.50	12.70	3.73	4.67
2000	12.60	0.60	13.20	3.81	4.76
2001	13.00	0.60	13.60	3.91	4.88
2002	13.30	0.74	14.04	3.86	4.83
2003	12.90	0.80	13.70	3.72	4.65
2004	14.10	0.80	14.90	5.01	4.01
2005 1/	15.00	0.80	15.80		

Source: Brazilian Coffee Industry Association (ABIC).

Note: Estimates refer to November-October period, 2005: projection

Trade

Exports

Post estimates total MY 2004/05 (July-June) coffee exports at 27.28 million 60-kg bags, green equivalent, up 9 percent from previous MY, based on updated information provided by the Brazilian Secretariat of Foreign Trade (SECEX) and the Brazilian Green Coffee Association (CECAFE). Arabica and robusta exports should contribute 24.1 million bags, up 2.26 million bags from MY 2003/04, whereas soluble coffee exports should amount to 3.15 million bags, green equivalent, up 120,000 bags compared to the previous MY.

Total coffee exports for MY 2005/06 are forecast at 26.13 million bags, green equivalent, a 4 percent reduction relative to MY 2005/06. Green coffee exports should contribute 23 million bags, down 1.1 million bags from the current season, whereas soluble exports are expected to remain stable at 3.1 million bags, green equivalent. In spite of the appreciation of the local currency during the past 12 months, Brazil remains competitive in international markets. However, the expected lower availability of the product should decrease total exports.

The table below shows green beans (NCM 0901.11.10), soluble coffee (NCM 2101.11.10) and roasted coffee exports (NCM 0901.21.00) by country of destination, according to SECEX for CY 2004, MY 2003/04 and 2004/05 (July-March).

Brazilian Coffee Exports by Country Of Destination (NCM 0901.11.10, MT, US\$ 000 FOB)

Country	CY 2004		MY 2003/04 1/		MY 2004/05 1/	
	Quantity	Value	Quantity	Value	Quantity	Value
Germany	294,916	365,289	210,382	220,856	225,980	321,965
U.S.A.	254,569	314,906	191,098	186,635	223,952	309,804
Italy	143,366	184,168	113,606	126,235	122,880	189,181
Japan	95,220	132,739	75,056	88,692	79,828	132,103
Slovenia	74,627	82,678	43,788	41,726	65,585	76,226
Belgium	67,122	86,013	39,160	42,622	54,994	81,271
France	55,327	70,884	41,088	45,154	43,131	63,475
Sweden	37,860	47,194	24,798	25,900	31,487	46,062
Spain	39,803	49,723	30,499	32,244	30,705	43,673
Greece	35,322	40,515	27,158	25,975	26,010	30,969
Others	312,491	375,701	223,267	228,284	239,763	322,142
Total	1,410,623	1,749,810	1,019,900	1,064,322	1,144,316	1,616,872

Source : Brazilian Foreign Trade Secretariat (SECEX)

Note : Numbers may not add to rounding. 1/ July-March.

Brazilian Coffee Exports by Country of Destination (NCM 2101.11.10. MT, US\$ 000 FOB)

Country	CY 2004		MY 2003/04 1/		MY 2004/05 1	
	Quantity	Value	Quantity	Value	Quantity	Value
Russia	14,405	58,201	5,816	26,010	11,003	46,425
U.S.A.	11,071	31,526	10,340	26,102	9,477	28,638
Germany	5,633	18,729	4,781	15,490	4,287	13,787
Ukraine	7,557	31,082	6,275	24,364	4,191	17,316
Finland	2,555	9,195	703	2,419	3,407	12,982
Japan	3,441	16,597	2,991	13,963	2,611	13,753
United Kingdom	3,054	17,907	2,076	10,530	2,301	12,130
Singapore	2,619	7,189	1,682	4,684	2,037	5,709
Malaysia	1,865	4,035	1,047	2,378	1,537	3,355
Argentina	1,807	5,329	1,012	3,000	1,132	3,387
Total	17,233	75,366	11,985	50,059	12,990	59,215
Others	71,240	275,154	48,709	178,999	54,972	216,697

Source : Brazilian Foreign Trade Secretariat (SECEX)

Note : Numbers may not add due to rounding. 1/July-March.

Brazilian Coffee by Country of Destination (NCM 0901.21.00, MT, US\$ 000 FOB)

Country	CY 2004		MY 2003/04 1/		MY 2004/05 1/	
	Quantity	Value	Quantity	Value	Quantity	Value
U.S.A	1,028	3,504	1,793	5,994	769	3,233
Italy	891	2,575	459	1,250	690	2,100
Japan	150	428	293	775	241	721
Argentina	109	375	65	226	90	339
Russia	59	228	135	483	20	86
Hong Kong	30	137	25	112	10	47
France	37	106	10	21	86	408
Chile	29	81	19	54	19	58
Lebanon	14	72	1	2	0	1
Germany	7	67	0	0	23	110
Others	241	617	614	849	149	408
Total	2,595	8,192	3,414	9,768	2,097	7,511

Source : Brazilian Foreign Trade Secretariat (SECEX)

Note : Numbers may not add due to rounding. 1/July-March.

Monthly coffee data (quantity and value) for MY 2004/05 (July-April), as reported by CECAFE and the Brazilian Soluble Coffee Association (ABICS), follows. CECAFE reports that green bean exports (arabica and robusta) during the July 2004 - April 2005 period were 20.62 million bags, up 2.3 million bags compared to the same period for the previous MY, due to the higher availability of the product. Preliminary data show that coffee export registrations for May 2005 were 738,360 bags, while cumulative green coffee export shipments for May 2005 are 646,456 bags up to May 13.

Brazilian Monthly Coffee Exports for MY 2004/05 (60 kg bag, green equivalent).

Month	Conillon	Arabica	Roasted	Total Green	Soluble	Total
Jul-04	98,709	1,581,828	2,877	1,683,414	306,139	1,989,553
Aug-04	98,206	1,976,888	2,385	2,077,479	302,507	2,379,986
Sep-04	79,147	2,010,572	1,369	2,091,088	244,057	2,335,145
Oct-04	52,274	2,281,827	6,531	2,340,632	224,104	2,564,736
Nov-04	39,872	2,276,858	1,598	2,318,328	249,551	2,567,879
Dec-04	58,268	2,416,631	3,310	2,478,209	319,777	2,797,986
Jan-05	16,512	1,969,730	3,887	1,990,129	248,006	2,238,135
Feb-05	31,376	1,519,795	3,635	1,554,806	241,698	1,796,504
Mar-05	45,002	2,362,105	4,240	2,411,347	276,881	2,688,228
Apr-05	39,923	1,667,848	2,845	1,710,616	252,793	1,963,409
Cumulative	559,289	20,064,082	32,677	20,656,048	2,665,512	23,321,560

Source: CECAFE and ABICS.

Brazilian Monthly Coffee Exports for MY 2004/05 (US\$ 1,000).

Month	Conillon	Arabica	Roasted	Total Green	Soluble	Total
Jul-04	4,738	122,284	377	127,399	27,594	154,993
Aug-04	4,278	146,561	322	151,161	26,649	177,811
Sep-04	3,682	148,174	296	152,152	22,188	174,340
Oct-04	2,566	175,513	1,518	179,598	21,153	200,751
Nov-04	2,029	179,506	260	181,794	20,932	202,726
Dec-04	2,996	203,896	583	207,475	28,834	236,309
Jan-05	871	180,469	747	182,087	23,426	205,513
Feb-05	1,758	148,194	714	150,666	24,572	175,238
Mar-05	2,623	259,599	797	263,018	28,649	291,667
Cumulative	25,541	1,564,198	5,614	1,595,352	223,997	1,819,349

Source: CECAFE and ABICS.

Stocks

Total MY 2004/05 ending stocks are estimated at approximately 10.439 million 60-kg bags, green equivalent, similar to revised MY 2003/04 carry-over stocks. However, total MY 2005/06 ending stocks are projected at 4.809 million bags, sharply down from MY 2004/05. The need to comply with export commitments and the increased domestic consumption associated with an expected decrease in the 2005 crop size will likely result in lower carry-over stocks.

The table below shows the volumes offered and negotiated for MY 2004/05 (July-May) in the monthly coffee auctions conducted by the MAPA/Department of Coffee (DECAF). Cumulative sales to date are 1.01 million bags or approximately 95 percent of the quantity offered. As of April 30, coffee stocks held by MAPA/DECAF were estimated at approximately 3.767 million bags.

Conab has been conducting coffee auctions to sell approximately 1 million coffee bags since May 2004. The product offered by CONAB was acquired through the option contract program in 2003. The organization conducted 3 auctions in 2004 and 5 auctions as of May 13, 2005. Current CONAB coffee stocks are 165,000 bags.

Auctions of the Brazilian Government Coffee Stocks, 2004/2005 (60 kg bags, US\$/bag).

Date	Quantity		Auction Price	
	Offered	Sold	R\$	USD\$
01-Jul	80,000	79,551	154.14	50.13
04-Aug	40,000	39,629	150.46	49.20
25-Aug	40,000	39,990	149.39	50.62
09-Sep	40,000	39,785	153.33	52.82
29-Sep	40,000	39,060	163.81	57.27
14-Oct	45,000	44,471	152.41	53.23
04-Nov	45,000	44,928	144.02	51.05
24-Nov	50,000	49,785	144.95	52.74
15-Dec	80,000	75,076	152.57	55.46
12-Jan	40,000	31,409	167.91	55.60
26-Jan	40,000	39,890	163.86	61.26
11-Feb	50,000	50,000	178.95	68.37
23-Feb	80,000	78,559	164.60	63.66
09-Mar	85,000	73,239	167.26	61.69
23-Mar	85,000	76,664	146.42	53.43
06-Apr	80,000	74,668	144.46	55.42
20-Apr	60,000	57,360	145.62	56.78
04-May	45,000	39,733	147.68	59.63
18-May	40,000	40,000	149.25	60.58
Cumulative	1,065,000	1,013,797		

Source: Ministry of Agriculture, Livestock & Supply (MAPA)/Coffee Department (DECAF)

The monthly coffee distribution linked to Brazilian cooperatives for MY 2004/05 (July-April) follows. As reported by the National Coffee Council (CNC), the coffee stocks held by cooperatives amounted to approximately 3.49 million bags in April 2005, up 780,000 bags relative to April 2004, due to the higher availability of the product for MY 2004/05. There are no official data for total private stocks.

Monthly Coffee Distribution of Brazilian Cooperatives (60-kg bags, MY 2004/05 - Jul/Jun)

Month	Beginning Stocks	Deliveries	Sales	Ending Stocks
July	2,341,534	1,727,166	603,806	3,464,894
August	3,464,894	3,102,385	779,071	5,788,208
September	5,788,208	2,894,885	1,048,244	7,634,849
October	7,634,849	1,258,323	1,004,404	7,888,768
November	7,888,768	678,957	1,175,824	7,391,901
December	7,391,901	439,212	1,070,083	6,761,030
January	6,761,030	152,458	864,950	6,048,538
February	6,048,538	208,371	1,109,578	5,147,331
March	5,147,331	157,544	1,321,657	3,983,218
April	3,983,218	197,205	687,887	3,492,536
Cumulative		10,816,506	9,665,504	

Source: National Coffee Council (CNC).

Policy

In 2004, FUNCAFE added R\$ 773.8 million to its account from the coffee sector (685.5 million related to growers debts and 88.3 million associated with the sales of the coffee stocks in the monthly auctions). Note that this is the best financial return for FUNCAFE in many years, due to the low prices that had prevailed. In 2003, the institution received only R\$ 220.3 million from growers' debts.

In March 2005, the Brazilian Government announced some measures to support the 2005 coffee crop:

1. A credit line of R\$ 500 million to finance the harvest and storage of the product at 9.5 percent per year. Coffee growers will be eligible for a lending limit of R\$1,400 per hectare up to a limit of R\$140,000 to finance harvest. Growers will be eligible for a lending limit of R\$ 140,000 to finance storage. Financing must come from the Coffee Defense Fund (FUNCAFE) and the repayment is due 6 months after harvest.
2. A special credit line ("Linha Especial de credito" – LEC) to market robusta and arabica coffees from the previous season (2004 crop) at 8.75 percent per year. Funding depends on the availability of credit supplied by commercial banks, principally Bank of Brazil. Lending limit is set at R\$ 140,000 per grower and the repayment is due up to 6 months after the contract is set.
3. The minimum price for coffee is set at R\$157 per 60-kg bag for arabica and R\$ 89 per 60-kg bag for robusta coffee.

In spite of the promising market perspectives for MY 2005/06, coffee growers are pushing the Brazilian Government to renegotiate the loans from the past 3 crops (2002/03, 2003/04 and 2004/05). The cumulative growers debt related to financing for crop management, harvest and storage for the past 3 crops totals R\$536 million.

In April 2004, the Brazilian Association of Soluble Coffee (ABICS) requested a study to measure the impact of coffee imports under drawback. ABICS reports that coffee imports are not a given, however the institution advocates that the soluble industry have the right to import when robusta coffee prices from other producing countries are lower than the domestic product. This is a sensitive issue that has been discussed in the Brazilian Coffee Policy Council ("Conselho Deliberativo da Politica Cafeira" - CDPC). Some members of CDPC

have raised questions about the phytosanitary risks imported coffee might represent to Brazil and about the "unfair" competition brought by long term international credit compared to those provided by the Brazilian institutions.

Biotechnology

According to the Parana Agronomic Institute (IAPAR), initial field tests with transgenic coffee should occur in 2006, as a consequence of the Biosafety Law approved in March 2005 by the Brazilian Government. IAPAR has been conducting research on coffee resistance to herbicides. Broader uniformity in coffee maturation reducing the time the beans are exposed to insects and allowing enhanced bean quality is another research line that will be pursued by the institute. IAPAR reports that it will take at least 10 to 12 years to conclude and market a new transgenic variety in the Brazilian market since coffee is a permanent crop with low growth rate.

Exchange Rate

Exchange Rate (R\$/US\$1.00 - official rate, last day of period)

Month	2001	2002	2003	2004	2005
January	1.97	2.42	3.53	2.94	2.62
February	2.04	2.35	3.56	2.91	2.60
March	2.16	2.32	3.35	2.91	2.67
April	2.22	2.36	2.89	2.94	2.53
May	2.36	2.52	2.97	3.13	2.47
June	2.30	2.84	2.87	3.11	--
July	2.43	3.43	2.97	3.03	--
August	2.55	3.02	2.97	2.93	--
September	2.67	3.89	2.92	2.86	--
October	2.71	3.65	2.86	2.86	--
November	2.53	3.59	2.95	2.73	--
December	2.32	3.53	2.89	2.65	--

Source: Gazeta Mercantil. May 2005 exchange rate refers to May 13